

**For discussion on
14 December 2009**

Legislative Council Panel on Education

Increase in Commitment for the Start-up Loan Scheme

Purpose

This paper informs Members of the Administration's proposal to seek the approval of the Finance Committee (FC) to increase the total commitment of the Start-up Loan Scheme (SLS) by \$2 billion.

Background

2. In support of the 2000 policy objective of enabling 60% of our secondary school leavers to receive post-secondary education by 2010, the Administration has introduced a series of support measures to promote the development of a self-financing post-secondary sector in Hong Kong. One of the major support measures is the establishment of a \$5 billion SLS to provide interest-free loans to non-profit-making institutions offering full-time locally accredited self-financing post-secondary programmes. The loans can be used for purchasing, renting or building campuses for the provision of such post-secondary programmes. Applications for start-up loans are assessed by an independent Vetting Committee. The terms of reference and membership of the Vetting Committee are at Annex A.

3. Since the introduction of the SLS in 2001, FC has approved 23 loans to 14 institutions, amounting to about \$4,496 million in total. The Secretary for Education approved under delegated authority¹ a total of six loan applications amounting to \$58 million in total. As at the end of November 2009, a total of \$968 million has been repaid and all repayments have been on time.

¹ As approved by FC on 6 July 2001, the Secretary for Education can under delegated authority approve applications at or below \$15 million.

Justifications for increasing total commitment of Start-up Loan Scheme

4. As announced by the Chief Executive in his 2009-10 Policy Address, education service is one of the six priority industries that the Government aims to promote and develop. Our objective is to enhance Hong Kong's status as a regional education hub and boost Hong Kong's competitiveness. On the higher education front, diversification is one of our policy objectives. We consider that the self-financing higher education sector will play an important role in the provision of education services and has room for further expansion. Its development would enhance the opportunities for students to pursue higher education.

5. To facilitate the development of the sector, we have been actively identifying land sites suitable for development of college premises. Apart from the two urban sites announced by the Chief Executive earlier, three sites in the New Territories have been earmarked. The list of potential sites for self-financing degree-awarding institutions is at Annex B. We would continue our effort in identifying suitable sites having regard to demand and development needs of the sector. We would also continue to identify suitable vacant school premises for use by post-secondary institutions in order to improve their existing learning and teaching environment and enhance the quality of education.

6. The total developable Gross Floor Area (GFA) of the five potential sites listed at Annex B is about 100,000 square metres. Assuming that the unit development cost of a post-secondary college is about \$20,000 per square metre of GFA², the estimated total development costs of the five sites would be about \$2 billion.

7. The current uncommitted balance of SLS is only around \$446 million. According to the above estimation, it will not be adequate to meet the loan requirements from institutions for developing campus premises at the potential sites. We therefore propose to increase the total commitment of SLS by \$2 billion. We anticipate that the new loans would mainly be used for developing new college premises, while a small portion would be used on refurbishment of existing premises. Subject to FC's approval of the increase in commitment, we plan to invite application for granting the two urban sites under the Land Grant Scheme in the first quarter of 2010. We will monitor

² Reference has been made to the development cost of a campus recently approved under SLS, i.e. the proposal from the Chu Hai College of Higher Education where the construction cost was around \$19,000 per square metre. For UGC-funded institutions, the building and building services part of the development cost was around \$20,000 to \$21,000 per square metre in a few recent cases.

the situation and consider launching another round of exercise in the latter part of 2010.

Repayment terms

8. Start-up loans should be repaid by equal annual instalment over 10 years from the date of the final drawdown. Institutions should carefully assess their financial position in accordance with the above repayment terms before applying for loans. The Vetting Committee will take into consideration the financial capability of the institution concerned when assessing its application.

9. FC approved vide FCR(2008-09)17 that borrowing institutions with proven financial difficulties could apply for extension of loan repayment period to up to 20 years, subject to interest payment at no-gain-no-loss rate³ after the 10-year interest-free period. However, the extension is not applicable to loans granted after May 2008. At the meetings of the LegCo Panel on Education and FC in May 2009 and June 2009 respectively, Members requested that the extension arrangement should also be applicable to such new loans. Having carefully considered Members' views, we propose to establish a mechanism that allows institutions to apply for extension of repayment period up to a total of 20 years after first five repayment instalments, with loans outstanding after 10 years subject to interest payment at no-gain-no-loss rate. Applications for loan extension will be considered by the Vetting Committee on a case-by-case basis having regard to the financial needs of the institutions concerned. We propose that the arrangement should also be applicable to the start-up loan application from the Chu Hai College of Higher Education approved by FC in June 2009 (vide FCR(2009-10)28).

Financial implications

10. The financial implications of increasing the commitment of SLS very much depend on the pace of development of self-financing degree-awarding institutions, the development plans of individual college premises and the amount of capital costs involved.

11. The interest foregone for the proposed \$2 billion additional commitment will be around \$273 million based on the assumption that loans

³ Pitched at 2.099% per annum as at November 2009, and subject to revision from time to time.

will be drawn down by three equal annual instalments, interests calculated at no-gain-no-loss rate and no application for extension of repayment period.

Way forward

12. We plan to submit the proposal to increase the SLS commitment by \$2 billion to FC for approval in January 2010. Subject to FC's approval, we would invite eligible institutions to submit applications for the new round of Land Grant Scheme and SLS.

Education Bureau
December 2009

**Vetting Committee for
Start-up Loan for Post-secondary Education Providers**

Terms of Reference

1. To examine and assess applications for start-up loan for post-secondary education providers in accordance with prevailing policies, and advise the Secretary for Education (SED) on whether to accept, modify or reject the applications, where the loan amount to be approved is at or below \$15 million.
2. To examine and assess applications for start-up loan for post-secondary education providers in accordance with prevailing policies, and advise SED on whether to recommend the applications for approval by the Finance Committee of the Legislative Council, where the loan amount to be approved exceeds \$15 million.
3. To advise SED on any other matters that may be referred to Vetting Committee by the Education Bureau concerning the policy and execution of the post-secondary loan scheme.

Membership

Chairman :

Professor TAM Man Kwan, BBS, J.P.

Members :

Non-officials

Mr. KUNG Lin Cheng, Leo, J.P.

Mr. LIAO Cheung Kong, Martin, J.P.

Mr. WONG Tak Wai, Alvin

Ms. CHEUNG Sau Yu, Stephanie

Official

Principal Assistant Secretary (Further Education), EDB

Annex B

Potential Sites Earmarked for the Development of Self-financing Degree Awarding Institution

	Location	Site Area	Potential Developable GFA
1.	Homantin Chung Hau Street	4,300m ²	21,500m ²
2.	Wong Chuk Hang Police School Road	4,600m ²	23,000m ²
3.	Siu Lek Yuen Kwong Sin Street	5,650m ²	11,200m ²
4.	MTR Tai Wai Station	6,200m ²	15,000m ²
5.	Tseung Kwan O Town Lot 97	7,500m ²	30,000m ²